

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 INT-08 SCEM-02

COME-00 L-03 H-03 CIAE-00 DODE-00 INR-10 NSAE-00

PA-03 USIA-15 PRS-01 DRC-01 /133 W

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R 051820Z SEP 73

FM AMEMBASSY SAN SALVADOR

TO SECSTATE WASHDC 3678

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY TEGUCIGALPA

AMEMBASSY PANAMA

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E.O. 11652 - N/A

TAGS: ENRG, EIND, ES

SUBJECT: PETROLEUM - GOES AND INDUSTRY AGREE ON PRICE INCREASES

REF: SAN SALVADOR 1936

GUATEMALA ALSO FOR ROCAP

1. ON SEPTEMBER 4 THE FOUR PETROLEUM COMPANIES AND GOES REACHED AGREEMENT ON A PACKAGE OF PETROLEUM PRODUCTS PRICE INCREASES FOLLOWING SEVERAL MONTHS OF NEGOTIATIONS WHICH CULMINATED IN THE INDUSTRY AND GOES MINISTERIAL-LEVEL MEETING ON THAT DATE. ESSO, TEXACO, CHEVRON AND SHELL, AGREED TO WHAT THE GOES CALLED ITS FINAL OFFER WITH THE UNDERSTANDING THAT THE GOES WOULD CONSIDER FAVORABLY ADDITIONAL UPWARD PRICE ADJUSTMENTS BEFORE THE END OF 1973. THE FOLLOWING PRICE INCREASES IN CENTAVOS (2.5 TO 1 US) WERE AGREED UPON: PREMIUM GASOLINE - 0.10 TO 139, UP 7.2 PERCENT; REGULAR GASOLINE - 0.10 TO 140,

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UP 7.7 PERCENT; DIESEL - 0.11 TO 0.70, UP 18.6 PERCENT;

KEROSENE - 0.09 TO 0.49, UP 22.5 PERCENT; AND FUEL OIL - 0.03 TO 0.27, UP 13.3 PERCENT. ONLY THE FACT OF AN AGREEMENT HAS BEEN PUBLICIZED. INDUSTRY INFORMANTS EXPECT THE GOES TO OBTAIN A DECREE FROM THE LEGISLATIVE ASSEMBLY WITHIN DAYS. THE EFFECTIVE DATE OF THE INCREASES WOULD NORMALLY BE 10 TO 15 DAYS LATER WHEN THE "DIARIO OFICIAL" IS PUBLISHED.

2. IN THE THREE MONTHS SINCE OUR REFTTEL, INDUSTRY AND GOES REPRESENTATIVES HAVE PROGRESSED IN DISCUSSIONS WHICH AVOIDED ATMOSPHERICS AND PUBLICIZED CONFRONTATIONS. THE PACKAGE OF PRICE INCREASES IS ESTIMATED BY INDUSTRY TO PROVIDE AN AVERAGE TWO PERCENT RETURN ON INVESTED CAPITAL AND COVER DIRECT COSTS ON EACH PRODUCT LINE. ALTHOUGH FAR FROM WHAT THE INDUSTRY REQUESTED, THE INCREASES ARE SIGNIFICANT BECAUSE RETAIL PRICE OF DIESEL HAD NOT BEEN INCREASED SINCE THE EARLY 1960'S AND PRICES OF ALL OTHER PETROLEUM PRODUCTS HAVE

BEEN FROZEN SINCE JUNE 1971. GOVERNMENT STATEMENTS TO THE PRESS IN RECENT WEEKS HAVE SOUGHT TO PREPARE THE PUBLIC FOR PRICE INCREASES AND HAVE STRESSED THAT THE GOVERNMENT WOULD REQUIRE THAT THE INDUSTRY "PARTICIPATE" IN THE RISING COSTS OF PETROLEUM. WHETHER THE PUBLIC WILL ACCEPT THE INCREASES WITH MINIMUM COMPLAINTS OR NOT IS PROBLEMATIC. WE EXPECT THE MOST VOCAL DISSENT TO COME FROM THE TRANSPORT INDUSTRY.

3. WE WILL REPORT ADDITIONAL DETAILS ON THE NEGOTIATIONS AND PUBLIC REACTION SEPARATELY BY AIRGRAM.
MOSKOWITZ

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